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CENTRAL INTELLIGENCE AGENCY
PROGRAM FOR IMPROVEMENT OF FINANCIAL MANAGEMENT

1. Pursuant to the request contained in Budget Bureau Bulletin No. 57-5, dated 10 October 1956, there is set forth herein the program of this Agency for improvement of financial management including a tentative time schedule for completion of the program.

2. During the past several years considerable advancement has been made by this Agency toward the development of good financial management through improvements in budgeting, accounting, and reporting practices. These include, among others, the following:

a. One of the financial management objectives of the Agency for the last few years has been the development of a budget process whereby operating officials have included budgetary considerations as an integral part of program planning and execution. This approach has assisted in the development of our performance-type budget in which Agency requirements are presented on a major program basis supported by organizational unit requirements.

b. The Agency's accounting system is designed to provide for the recording of certain activities on an accrual basis and includes financial control of inventories and property in use for Headquarters activities and for certain field installations.

c. The Agency's accounting system provides for accumulating direct cost information designed to assist operating officials in planning, executing and evaluating operations. Full implementation of this system will result in the accumulation of costs on the basis of expenditures of, and the value of expendable property issued to, operating components, projects and specific activities.

d. Financial reports and statements for both administrative and operating purposes, including supporting schedules, analyses and summarizations of statistical data covering programs, projects, and activities have been substantially improved.

e. Certifying officer responsibilities, accounting activities, and comprehensive audit activities have been decentralized to certain field installations to improve the effectiveness of financial and other related control measures.

f. The Agency has implemented an effective comprehensive audit function which operates independently of the Office of the Comptroller and the operating divisions and is responsible to the Director of the Agency. This is considered particularly important since, by law, the Director of Central Intelligence has final authority with respect to the Agency's confidential funds activities and as a result no outside audit is performed on expenditures of confidential funds.

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3. Constant attention has been given by Agency officials toward improvement of financial management practices. The recommendations of both the first and second Hoover Commissions, as well as the recommendations of the three Central Agencies under the Joint Program for Improving Accounting in Government, have been closely studied and considered. The Agency is in agreement with the over-all Government Financial improvement program and has been working toward the adoption and installation of many improvements.

4. With respect to the specific areas of improvement of financial management, as specified in Bulletin No. 57-5, there are set forth below statements concerning the progress of the Agency program as related to these objectives:

a. Accounting on an Accrual and Cost Basis

The Agency is continually modifying and developing its accounting system and procedures to meet administrative and operating needs, and financial accounts of a commercial type are being used to an increasing degree and with steadily increasing effectiveness. At this time the Agency maintains its accounts in a manner designed for recording certain activities on an accrual basis. The accounting system includes financial control of inventories and property in use for Headquarters activities and certain selected field installations. It is contemplated that, beginning with the Fiscal Year 1959, the Agency's accounting will provide data and periodic reports that reflect resources and liabilities and costs of operation on an accrual basis.

b. Budgeting on a Cost Basis

At the present time the budget of this Agency is developed by estimating obligations based upon prior years' obligation experience and the best available information concerning the financial needs of the anticipated program. Consideration is being given to the advisability of establishing a cost-based budget for the Agency in view of a wide variety of unique financing problems encountered by the Agency. Action is being taken on the assumption that a cost-based budget will prove practical for the Agency and, on this basis, it appears that this can be attained with further expansion of accrual accounting to provide officials primarily responsible for budget planning, submission and execution with periodic reports reflecting experience data based on costs and showing comparison of budgeted and actual expenses. If all problems can be worked out, it is contemplated that a cost-based budget may be presented for the Fiscal Year 1961 or 1962.

c. Budget and Accounting Classifications and Supporting Organizational Data

The Agency's present system complies with the objective of Public Law 863 with respect to budget and accounting classifications and synchronization with the organization structure, although further studies are

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necessary to perfect the distribution of certain costs to major budget programs. This Agency's present accounting structure provides information in direct support of organizational units. Some organization unit activity can be applied in total to a major budget program; however, in several instances, it is more practical and economical to distribute accounting data for specific organizational units to support budgetary program presentations.

d. Simplification of Allotment Structure

It has been the practice in this Agency, as in many other agencies, to employ the allotment structure not only for control of funds but also to obtain certain cost data. This dual use has tended to make the structure complex. For certain activities cost data are developed on the same breakdown as allotments and for other activities cost data are accumulated for separate projects below the allotment level. The feasibility of simplifying the allotment structure by making allotments at higher levels has been recognized and has been under consideration for sometime. With the further development of costs on an accrual basis as media for controlling the use of funds and other resources by components and projects, steps will be taken to raise the level of allotments to the greatest extent practicable consistent with Agency policies of control of operations. This again depends on the expansion of the accrual concept in the Agency's accounting which should be completed in Fiscal Year 1958, as indicated in paragraph 4a, above, so that further simplifications of the allotment structure may be possible beginning with Fiscal Year 1959.

5. Actions taken by the Agency pertaining to other phases of improvements of financial management are as follows:

a. Much of the accounting activity is maintained by mechanical means and continuing studies are being made to further the application of machine processing in order to provide for more prompt availability of all financial data and related information.

b. Steps have been taken to effectuate the provisions of Public Law 798 which simplifies the accounting for and facilitates the payment of obligations for prior fiscal years.

c. The Agency's reports management program provides for the periodic review of budgetary and financial reporting requirements to ensure the management is furnished with the reports required for administrative and operating purposes and that obsolete and unnecessary reports are eliminated.

d. Informative and instructional material to improve understanding of "Comptroller" activities and responsibilities are being developed for internal distribution. These include broad fiscal policy regulations as well as detailed operating handbooks.

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e. The administration of financial resources in the Agency has improved through the advisory and evaluating assistance furnished by the Comptroller. Statements of financial implications involved in various program proposals have been especially helpful to those officials charged with the responsibility of developing, considering and approving program requests.

f. There is considerable emphasis placed on employee training, both from the standpoint of "on-the-job" and special supplementary training activities.

6. To summarize, this Agency's objectives toward the improvement of financial management are consistent with the provisions of the Budget and Accounting Procedures Act of 1950, Public Law No. 863, and other specific legislation on this subject pertinent to this Agency. Although we have made considerable progress in improving financial management within the Agency, there are still many things to be done to achieve the objectives of the program.

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OUTLINE OF REPORT TO BUREAU OF BUDGET
ON PROGRESS OF PROGRAM FOR
IMPROVEMENT OF FINANCIAL MANAGEMENT

25 April 1957

1. Agency has been interested in this problem for several years; accomplishments up to issuance of Bulletin 57-5:

- a. Financial aspects now considered a part of program planning and execution by operators;
- b. Coordination of budget and accounting data and the identification of budgetary activities in the accounts.
- c. Accrual accounting applies to certain aspects of the Agency accounting system;
- d. System installed for the accumulation of direct cost information;
- e. Financial reporting improved;
- f. Preaudit and certification of financial transactions;
- g. Independent comprehensive audit established.

2. A permanent committee has been established to study and develop plans for the consumation of long range financial objectives:

- a. Current emphasis on:
 - (1) Cost accounting for management purposes.
 - (2) Cost based budgeting.
- b. Progress:
 - (1) A study leading to the establishment of the basic principles and policies of the Agency cost system.

- (2) Study groups to review and develop plans for the modification of the present accounting and reporting system.
 - (a) Vouchered Funds
 - (b) Confidential Funds:
 - 1 Headquarters
 - 2 Class A Stations
 - 3 Class B Stations
 - (c) Property (inventories, depreciation, etc.)
 - (d) Financial reporting--especially cost
 - (e) Machine application
- (3) Panel discussions with operating officials to present the Agency's improvement of financial management program.